

**NOVEMBER 2021 PROFESSIONAL EXAMINATION  
PRINCIPLES OF TAXATION (PAPER 2.6)  
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

**EXAMINER'S GENERAL COMMENTS**

Approximately 40% of the candidates who wrote the paper passed. This pass rate was above that of May 2021 of which 23% of the candidates passed. Thus, there was a vast improvement in the performance of the candidates. It was evident that most candidates learn the Principles of Taxation based on past questions instead of the syllabus and the law. The paper now pays attention to the candidates' understanding of the principles and laws of taxation. There were a clear general understanding of the questions, and more also the questions included instructions to candidates that were specific and clear. Most of the Candidates performed excellently, probably because the instructions and requirements in the questions were clear enough. However, candidates are advised to read and pay more attention to the tax laws and principles. This is so because the Principles of Taxation is built on general knowledge on how the tax laws and principles are to work and more significantly how the law and principles are to be explained and applied.

**STANDARD OF THE PAPER**

The standard of the questions was excellent for a part two level of the examination structure. All the questions did reflect the Principles of Taxation syllabus of which the candidates were expected to have a fair knowledge to pass. However, some of the areas were allocated more marks than they deserve, thus favouring some candidates who studied those areas. Notwithstanding, the questions somewhat covered the entire syllabus, and the expectations were that an average student who wrote the paper should be in the position to pass.

**PERFORMANCE OF CANDIDATES**

Generally, the performance of the candidates was very good, and the expectations of the Examiner from the candidates were largely met. Questions were of a good standard with respect to level two of the examination structure. Instructions were clear as to what the candidates were expected to do. Any candidate who could not pass could be due to lack of preparation and understanding of the syllabus.

The reasons for the good performance could be as follows:

- Most candidates now understand and can apply the principles of taxation. This could be due to candidates now having access to quality tuition.
- The requirements and instructions in most of the questions were unambiguous.
- Also, candidates did very well because of question five. This question was well answered, with most of the candidates scoring 15/20.
- Candidates who passed did not have many problems stating the principles in taxation. It is expected that this trend will continue.
- Those candidates who did not perform well do not understand capital allowance computation, fiscal policies, capital gains, and Value Added Tax. These areas of

taxation were examined prominently and it seems most of the candidates have little knowledge on these issues.

### **NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES**

Most of the candidates had an excellent understanding of the syllabus and the subject. This was demonstrated in the answering of the questions. However, the coverage of the syllabus is still low. Candidates have been learning only certain parts of the syllabus. This was evident with some candidates scoring high marks in certain questions and almost nothing in other questions.

It is also clear that most candidates received excellent tuition on the subject. Most of the answers provided were very good. Lecturers should pay attention to the law and the basic principles of taxation. It seems some Lecturers do not follow the tax updates and changes in the law.

Those who passed deserve it because it was clear that they had prepared, as some of the candidates were getting marks above 55%. This is clear that the candidates prepared well and understood the questions.

The manner most of the candidates presented their answers was very good. This makes the marking and scoring not so difficult. However, candidates should pay attention to presentation style going forward.

Most of the candidates had excellent handwriting. This makes marking easy and facilitates the understanding of candidates. However, where there are plenty of scripts to mark, and the handwritings are not good it can be frustrating to examiners.

The understanding of the topics in the syllabus was good. Most of the candidates had an excellent understanding of the topics in the syllabus. Even those who could not pass, had fairly good marks, ranging between 30%-40%.

It seems some of the candidates ignored certain topics. Probably, thinking those topics were not so important. Such topics are Ghana National Pension Scheme, Tax Administration, capital allowances, and Value-Added Taxation. If candidates had given more attention to these topics, the pass rate would have been more than 50%.

## QUESTION ONE

- a) Kawukudi Ltd intends to increase its capital requirement. Therefore, it applied to the Registrar General with the following:

<b>Retained Earnings Account</b>	<b>GH¢</b>
Balance b/fwd	100,000
Transfer from income statement	1,200,000
Transfer to stated capital	<u>(600,000)</u>
Balance c/fwd	<u><b>700,000</b></u>

**Required:**

Assess with explanation the tax payable under this circumstance. **(5 marks)**

- b) Countries worldwide experience fluctuations in economic activity, which affects the consistency in government revenue generation. For example, when income levels are high, all other things being equal, tax revenue rises. Conversely, when income levels fall, tax revenue drops, requiring government policies to address the fluctuations. Governments, therefore, employ expansionary and contractionary fiscal policies to moderate the effects of such fluctuations.

**Required:**

Explain the following forms of fiscal policy:

- i) Automatic Stabilisers
  - ii) Discretionary fiscal policy **(5 marks)**
- c) In the circumstances specified in section 28 (3) of the Revenue Administration Act, 2016 (Act 915) the Commissioner-General may make a pre-emptive assessment of tax payable or to become payable by a person under a tax law whether or not the person is required to file tax returns.

**Required:**

Under what circumstances would the Commissioner-General make a pre-emptive assessment? **(5 marks)**

- d) State **TWO (2)** advantages each of self-assessment to the government and the taxpayer. **(5 marks)**

**(Total: 20 marks)**

## QUESTION TWO

- a) There are circumstances that a taxable supply by a taxable person will require adjustment so that the trader pays the required taxes to the Ghana Revenue Authority.

**Required:**

Explain **THREE (3)** of such circumstances. **(6 marks)**

- b) One of the innovations by the Ghana Revenue Authority is the introduction of the withholding VAT Scheme. The scheme is aimed at promoting tax compliance.

**Required:**

Explain **FOUR (4)** objectives of the scheme. **(4 marks)**

- c) Under what condition are goods applied for own consumption, treated as supply of goods? **(2 marks)**
- d) What constitutes exempt supplies? **(3 marks)**

- e) Distinguish between defined benefit schemes and defined contribution schemes. **(5 marks)**

**(Total: 20 marks)**

## QUESTION THREE

Agyeiwaa Grace (Agyeiwaa), aged 56, is a foreign languages teacher at Mountaintop School, a private boarding school in Koforidua. Agyeiwaa has been in the teaching profession for the past 30 years. On 1 January 2020, the school promoted Agyeiwaa to head the languages department, which is a management position. She could also be subcontracted to other schools, institutions, and foreign language associations to assist their teachers and candidates during her free time. Agyeiwaa also holds a contract with the Ministry of Foreign Affairs and Regional Integration as an interpreter on a consultancy services basis.

On 5 January 2020, Agyeiwaa entered into a consultancy agreement with the Ministry of Education to translate some local textbooks. The project is for three years ending on 31 December 2022. Payment is only effected on completion of the translation of the textbooks, and the agreed amount is GH¢30,000 per translated textbook.

Details of Agyeiwaa's income for the year ended 31 December 2020 are as follows:

**Employment income and benefits**

- i) Agyeiwaa receives a gross monthly salary of GH¢4,000 and an annual bonus of GH¢12,000, payable in December.
- ii) Responsibility allowance of GH¢6,960 per annum.
- iii) Agyeiwaa makes use of a fully furnished house in the school's staff residential area. The school deducts a monthly rent of GH¢100 from Agyeiwaa's salary.

- iv) Upon Agyeiwaa's appointment as the languages department head, the school provided her with a new motor vehicle with fuel for her official use.
- v) Agyeiwaa contributes 2.5% of her monthly salary to a registered pension fund. The school contributes 2.5% to a provident fund on behalf of Agyeiwaa.
- vi) The school deducts her statutory social security contributions at source.
- vii) Agyeiwaa received a total of GH¢12,000 inconvenience allowances from the Mountaintop School during the year.
- viii) The school deducts the following amounts monthly from Agyeiwaa's salary upon her instruction and pays the appropriate amounts to the institutions concerned:

	<b>GH¢</b>
Subscriptions to the Ghana National Association of Teachers	15
Life insurance policy to Royal Life Insurance Services	50

**Other non-employment income**

- i) Agyeiwaa successfully translated four textbooks under the terms of her contract with the Ministry of Education during 2020.
- ii) Agyeiwaa's bank account was credited with a total of GH¢15,000, representing rental income collected by an estate agent regarding residential property owned by Agyeiwaa in Kumasi.
- iii) Agyeiwaa services amounted to a gross of GH¢30,000 for her subcontract work with other schools and foreign languages associations. Agyeiwaa paid Mountaintop School 10% of this amount under the terms of a standing arrangement for the use of the school's resources.
- iv) The Ministry of Foreign Affairs and Regional Integration paid Agyeiwaa GH¢9,250 net for her services as an interpreter during the year.

**Required:**

- a) Calculate Agyeiwaa's taxable income for the year 2020 year of assessment. **(14 marks)**
- b) Explain **FOUR (4)** possible individual gains and profits from an employment for a year of assessment. **(6 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

- a) NASA Ltd commenced business on 1 October 2017, preparing accounts to 31 December each year. Accordingly, the company has the following extracts from its financial records on non-current assets:

### Year 2017

- i) Purchased Office furniture and fittings costing GH¢40,000.
- ii) Purchased office Air conditioners at the cost of GH¢20,000.
- iii) The company bought a land costing GH¢55,000.
- iv) Bought office building at the cost of GH¢700,000.
- v) Purchased a computer at the cost of GH¢1,500.
- vi) Purchased office Photocopier at the cost of GH¢2,500.

### Year 2018

- i) Purchased a Television Set for the office at the cost of GH¢3,500.
- ii) Bought a 4x4 Vehicle (7-passenger-seater) for an amount of GH¢200,000.
- iii) Purchased a File Cabinet for GH¢2,000.

### Year 2019

- i) It exchanged the vehicle bought in 2018 for four plots of land. The value of the plots of land agreed with the landowners was GH¢200,000. The exchange was deemed satisfactory to both parties, and documentation was carried through.
- ii) Paid for a Trade Mark costing GH¢15,000, which was licensed for ten years.
- iii) Purchased a business that resulted in Goodwill of GH¢100,000. The company decided to amortise the goodwill over 20 years.

### Year 2020

- i) Bought a home used motor vehicle at the cost of GH¢70,000.
- ii) Purchased office computers for GH¢5,000.
- iii) Purchased Trucks and Trailers for GH¢50,000.
- iv) Sold some of the office furniture for GH¢3,000.

### Required:

Calculate the amount of capital allowance claimable for 2017, 2018, 2019 and 2020 years of assessment. **(16 marks)**

- b) 'A Class 1, 2 or 3 depreciable assets owned and employed by a person during a year of assessment in the production of income from a particular business shall, at the time the asset is first owned and employed by that person, be placed in a pool with all other assets of the same Class owned and employed by that person in the business'.

### Required:

What are the implications and taxation rules governing the above statement? **(4 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

- a) Withholding tax is deducted at source by an authorised agent and accounted later to the Commissioner-General of Ghana Revenue Authority.

**Required:**

State **TWO (2)** merits and **TWO (2)** demerits of the withholding tax regime.

**(10 marks)**

- b) Maame Adwoa Konadu Yiadom is a shareholder of Asokwa Company Ltd, a company not listed on the Ghana Stock Exchange Market. Maame Adwoa Konadu Yiadom transacted the following business with Asokwa Company Ltd:
- i) 1 January 2010 purchased 100,000 ordinary shares for GH¢50,000.
  - ii) 30 June 2015 purchased 100,000 ordinary shares at a price of GH¢0.60 per share.
  - iii) 1 January 2020 Maame Adwoa Konadu Yiadom accepted a rights offer of 1 share for every 10 shares held as at 31 December 2019 at a price of GH¢0.50 per share.
  - iv) 31 December 2020 Maame Adwoa Konadu Yiadom sold 50,000 shares for GH¢60,000, paying a commission of 2% of the sale value to the brokerage firm that facilitated the sale. The current market price per share on the market is GH¢1.12 per share.

**Required:**

Calculate the capital gain tax, if any.

**(5 marks)**

- c) Flowqueen, a sole proprietor of Freddy Ent, was adjudged the best distributor of Mino Ltd for the year 2020 and received the following gifts:
- i) 70 Inches Samsung LED valued at GH¢50,000 from Freddy Ltd.
  - ii) Toyota saloon car worth GH¢ 80,000 from the clients of Freddy Ltd.

Her income from the business for the 2020 year of assessment amounted to GH¢120,000.

**Required:**

Compute the appropriate tax or taxes of Flowqueen for the 2020 year of assessment.

**(5 marks)**

**(Total: 20 marks)**

### 2020 Annual Tax Rates

Chargeable Income Tax	(Annual)	Rates
	<b>GH¢</b>	
First	3,828	Nil
Next	1,200	5%
Next	1,440	10%
Next	36,000	17.5%
Next	197,532	25%
Exceeding	240,000	30%

## SOLUTION TO QUESTIONS

### QUESTION ONE

- a) The transfer of GH¢600,000 as income from the income surplus account to the stated capital is referred to as 'deemed dividend'. This implies that a tax at the rate of 8% shall be imposed on the transfer. Thus  $600,000 \times 8\% = \text{GH¢}48,000$ .

There will be a stamp duty payment of 0.5%. Thus,  $0.5\% \times 600,000 = \text{GH¢}3,000$ .

(5 marks)

b)

#### i) Automatic Stabilisers

Some tax and expenditure programs change automatically with the level of economic activity. These are called Automatic Stabilizers. Automatic stabilisers refer to how fiscal instruments (taxes and government spending) will influence the growth rate and help counter swings in the economic cycle.

In a period of high economic growth, automatic stabilisers will help to reduce the growth rate. With higher growth, the government will receive more tax revenues – people earn more and so pay more income tax (note the tax rate doesn't change, the amount received just becomes higher). With higher growth, there will also be a fall in unemployment so the government will spend less on unemployment benefits.

In a recession, economic growth becomes negative. However, automatic stabilisers will help to limit the fall in growth. With lower incomes people pay less tax, and government spending on unemployment benefits will increase. This increase in benefit spending and lower tax helps to limit the fall in aggregate demand.

(2.5 marks)

#### ii) Discretionary Fiscal Policy

Discretionary fiscal policy refers to deliberate changes in taxes or spending. The government cannot control certain aspects of the economy related to fiscal policy. For example:

- The government can control tax rates but not tax revenue. Tax revenue depends on household income and the size of corporate profits.
- Government spending depends on government decisions and the state of the economy.

Discretionary fiscal policy can be divided into two:

**Expansionary fiscal policy:** This is defined as an increase in government expenditures and/or a decrease in taxes that causes the government's budget deficit to increase or its budget surplus to decrease. This policy will shift the aggregate demand curve to the right.

**Contractionary fiscal policy:** This is defined as a decrease in government expenditures and/or an increase in taxes that causes the government's budget



deficit to decrease or its budget surplus to increase. Contractionary fiscal policy will shift the aggregate demand curve to the left.

**(2.5 marks)**

**c) Pre-emptive assessment**

The Commissioner-General may make a pre-emptive assessment of tax payable or to become payable by a person under the following circumstances:

- The person becomes bankrupt,
- The taxpayer is wound-up
- The taxpayer goes into liquidation
- The Commissioner-General believes on reasonable grounds that the person is about to leave the country indefinitely.
- When the taxpayer is about to cease activity or business in the country
- When the taxpayer has committed an offence under a tax law
- The Commissioner-General considers it appropriate, including where the person fails to maintain adequate documentation

**(Any 5 points @ 1 mark each = 5 marks)**

**d) Advantages to the government:**

- It ensures prompt payment of taxes
- It avoids delays in the issuance of assessment
- It saves time for Revenue Officer that can be used for other equally important work
- It reduces collection costs for the Ghana Revenue Authority

**(Any 2 points @ 1.25 marks each = 2.5 marks)**

**Advantages to the Taxpayer**

- Taxpayers know their business and circumstances better and can thus make the best of estimates.
- The taxpayers are given the benefit to revise their estimates
- There is a healthy interaction between the taxpayers and the Ghana Revenue Authority
- It promotes accurate record keeping for the taxpayers

**(Any 2 points @ 1.25 marks each = 2.5 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Candidates were able to answer the a) part fairly well. Most candidates were able to identify that there is deemed dividends.

More than 90% of the candidates could not provide good answers to the distinction between automatic stabilisers and discretionary policies. Those who knew the difference scored high marks.

Factors that account for pre-emptive assessment by the Commissioner General were fairly provided by the students.

## QUESTION TWO

a) Sometimes it becomes necessary to adjust the taxable value because of certain circumstances. The following are the circumstances that may lead to the adjustment of the taxable value:

1. The supply is cancelled.
2. The nature of the supply has been fundamentally varied or altered.
3. The previously agreed consideration for the supply has been altered by agreement with the recipient of the supply, whether due to an offer of a discount or for any other reason.
4. The goods or services, or part have been returned to the supplier.
5. The taxable person making the supply has given a VAT invoice in relation to the supply, and the amount shown on the invoice as the VAT charged on the supply is incorrect because of the occurrence of any one or more of the events mentioned above (i.e., 1-4).
6. The taxable person making the supply has filed a return for the period in which the supply was made and has accounted for an incorrect amount of output VAT on that supply because of the occurrence of any one or more of the events mentioned above (i.e., 1-4)
7. Where there are bad debts resulting from goods or services supplied.

**(Any 3 points @ 2 marks each = 6 marks)**

b) The objective of the Withholding VAT Scheme is to ensure that the following are achieved:

- Reduces the number of nil and non-filers. With this level of surveillance and monitoring, nil and non –filers will stop the deception.
- Reduces future uncollectible debts by collecting the tax upfront from some of the major consumers
- Increases voluntary registration. Taxpayers knowing they are being monitored, would voluntarily comply with the obligation under the law.
- Improves revenue flows to the government. Government can raise revenue through this medium that promotes compliance
- Enhances compliance, generally. This scheme has brought in its wake general compliance among taxpayers.
- Promotes fair application of the tax laws.

**(Any 4 points @ 1 mark each = 4 marks)**

c) Supply of goods is an arrangement where a taxable person parts with ownership of the goods. Where goods are applied to own use, it is deemed as supply of goods and being made on the date on which the goods are first applied to own use. The taxable person must account for the goods alongside other supplies. **(2 marks)**

d) A supply is exempt when a consumer of the goods and/or services is not liable to pay VAT by law. The VAT Act, specifically exempt the following items from VAT:

1. A supply of agricultural and aquatic food products in a raw state produced in Ghana
2. A supply of the following live animals bred or raised in Ghana: (a) cattle; (b) sheep; (c) goat; (d) pigs; and (e) poultry.
3. A supply of the following agricultural inputs:
  - A supply of gear or equipment designed exclusively for fishing, including boats, nets, floats, twines, and hooks.
4. A supply of water. This does not include water commonly supplied in bottles or other packaging suitable for supply to consumers.
5. A supply to a dwelling of electricity up to a maximum consumption level specified for block charges for lifeline units.
6. A supply of textbooks and supplementary readers on the Ministry of Education approved list, newspapers, atlases, charts, maps and music.
7. A supply of education services.
8. A supply of laboratory and library equipment for use in rendering educational services.
9. A supply of medical services and medical supplies.
10. A supply of pharmaceuticals in Ghana. A supply or import of the active ingredients and selected inputs for the manufacture of pharmaceuticals as determined by the Minister for Health. An import of selected drugs or pharmaceuticals as determined by the Minister for Health.
11. A supply of domestic transportation of passengers by air, road, rail and water, except the supply of haulage or the rental or hiring of passenger and other vehicles.
12. A supply of machinery and parts of machinery specifically designed for use in the following activities: (a) agriculture, veterinary practice, fishing and horticulture; (b) mining as specified in the mining list; (c) manufacturing; (d) railway and tramway; (e) upstream petroleum operations as specified in the petroleum list; and (f) dredging.
13. A supply of crude oil and the following hydrocarbon products: (a) petrol; (b) diesel; (c) liquefied petroleum gas; (d) kerosene; (e) residual fuel oil; and (f) natural petroleum gas.
14. A supply of the following: (a) immovable property, including land, used or intended to be used for the purpose of a dwelling (b) accommodation in a dwelling; (c) land used or to be used for agricultural purposes; and (d) civil engineering public works, including roads and bridges.
15. A supply of financial services.
16. A supply of goods designed exclusively for use by persons with disability.
17. A supply of postage stamps issued by the Ghana Post, other than for expedited services or for philatelist purposes.
18. A supply of salt for human consumption, including table salt.
19. A supply of mosquito nets, whether or not impregnated with chemicals.
20. A supply of paper for the production of exercise books and textbooks.
21. An import of mild carbon steel for the manufacture of machetes.
22. A stake in the National Lotto organised by the National Lottery Authority.
23. An import of goods is an exempt import if the goods are exempt in any of the items above.

(Any 3 points @ 1 mark each = 3 marks)

- e) The three-tier contributory scheme in Ghana is a mixture of the defined benefit and defined contribution schemes.

**Defined benefit scheme** means a pension scheme providing a definite or clear benefit. Under these schemes, the employees will, on retirement, receive a pension based on the length of service and salary, usually final salary or an average of the last few (usually three) years' salaries.

The new Basic National Social Security Scheme is an earnings-related, publicly-managed, defined benefit and partially funded scheme. Participation in the Scheme is mandatory for public and private sector workers. Tier 1 is a defined benefit scheme, and contributions are fully tax-exempt and are managed by SSNIT.

**Defined contribution schemes** are schemes in which the employer undertakes to make certain contributions each year, usually a stated percentage of salary. These contributions are usually supplemented by contributions from the employee. The money is then invested and, on retirement, the employee gains the pension benefits that can be obtained from the resulting funds.

A Tier 2 mandatory contributory scheme with monthly contributions of 5% on the basic salary of all employees. Tier 2 is a defined contribution scheme and contributions are fully tax-exempt and are privately managed by National Pensions Regulatory Authority (NPRA) licensed service providers. The scheme will pay out a lump-sum benefit to individuals upon retirement, which is comprised of all contributions made under the scheme plus all returns earned on their contributions.

Tier 3: An optional contributory scheme (up to 16.5%). An optional contributory scheme with monthly contributions of up to 16.5% of the employee's basic salary in both the formal and informal sectors. Tier 3 is also a defined contribution scheme and is privately managed by NPRA licensed service providers.

(5 marks)

(Total: 20 marks)

### EXAMINER'S COMMENTS

The circumstances leading to an adjustment of taxable value were excellently answered by candidates. This is the basics of VAT, and candidates should be in the position to answer.

Candidates were able to explain exempt supplies. As a result, excellent marks were obtained by candidates.

Generally, the VAT principles on repossession, goods on deposits, and goods supplied by agents have been poorly answered. This confirms that most of the candidates do not understand the basic principles of VAT. Lecturers and Candidates should pay attention to these basic principles.

### QUESTION THREE

a) **Agyeiwaa Grace**

#### Computation of Taxable Income for the Years of Assessment 2020

	GH¢	GH¢	GH¢
<b>Basic salary 4,000 x 12</b>			48,000
<b>Add cash and indirect cash benefits:</b>			
Excess Bonus (12,000 – (15% x 48,000))		4,800	
Responsibility allowance		6,960	
Inconvenience Allowance		12,000	
Employers SSF (13% x 48,000)		6,240	
Employers Pension Fund Cont. (2.5% x 48,000)		<u>1,200</u>	
			<u>31,200</u>
			79,200
<b>Add Benefits in Kind:</b>			
Accommodation (10% x 79,200)	7,920		
Less rent (100 x 12)	<u>1,200</u>	6,720	
Vehicle & fuel (10% x 79,200)	7,920		
Restricted (500 x 12)	<u>6,000</u>	<u>6,000</u>	<u>12,720</u>
			91,920
<b>Other Income:</b>			
Book Translation (4 x 30,000)		120,000	
School Services (30,000 – 3,000)		27,000	
Interpreter ( $\frac{9,250}{0.925}$ )		<u>10,000</u>	<u>157,000</u>
			248,920
<b>Less Reliefs:</b>			
SSF Employee (5.5% x 48,000)		2,640	
SSF Employer		6,240	
Pension Fund: Employee (2.5% x 48,000)		1,200	
Pension Fund: Employer (2.5% x 48,000)		1,200	
			<u>11,280</u>
<b>Taxable Income</b>			<u><b>237,640</b></u>

**(14 marks)**

#### Note the following:

- The total rent is part of Agyeiwaa's taxable income. Therefore, it is more appropriate to separate the rent income and tax it at 8%.
  - Candidates are reminded that the employer's contribution towards social security and pension funds are part of employee total cash emoluments. These contributions should be added to the employee total cash emoluments.
- b) An individual's income from employment for a year of assessment is the individual's gains and profits from the employment for the year.  
The following are individual's gains and profits from employment for a year of assessment:
- Payments of salary, wages, leave pay, fees, commissions, and gratuities.

- Overtime pays and bonuses.
- Payments of personal allowance, including cost of living allowance, subsistence, rent, entertainment or travel allowance.
- Payments for the individual's agreement to conditions of the employment.
- Payments, including gifts, are received in respect of employment.
- Retirement contribution made to a retirement fund on behalf of the employee and retirement payments received in respect of the employment.
- Any other allowances or benefits paid in cash or given in kind if the individual derives them during the year from the employment.
- Payments providing discharge of expenses incurred by the individual or an associate of the individual.

**(Any 4 points @ 1.5 marks each = 6 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Some candidates found difficulties with the treatment of contributions made by an employer towards employees' social security. Candidates are reminded that these are treated as part of the cash emolument of the employees.

This was a well answered question. Most of the candidates were able to apply the principles governing individual taxation and treat benefits in cash and in-kind.

Another area of basic principles are the tax implications of various employment incomes. It is expected that candidates understand fully all the incomes that are due to employees.

From the part b) of the question, it seems most candidates did not know all the gains and profits available to employees.

## QUESTION FOUR

### a) NASA LTD.

#### Computation of Capital Allowance (Amounts are GHc)

	Class 1	Class 2	Class 3	Total
<b>2017 (92 Days)</b>				
Cost Base	1,500	-	62,500	
Capital Allowance	<u>151</u>	<u>-</u>	<u>3,151</u>	<u>3,302</u>
	1,349	-	59,349	
<b>2018</b>				
Additions	<u>-</u>	<u>75,000</u>	<u>5,500</u>	
	1,349	75,000	64,849	
Capital Allowance	<u>540</u>	<u>22,500</u>	<u>12,970</u>	<u>36,010</u>
	809	52,500	51,879	
<b>2019</b>				
Disposal	<u>-</u>	<u>(220,000)</u>	<u>-</u>	
	809	0	51,879	
Capital Allowance	<u>809</u>	<u>0</u>	<u>10,376</u>	<u>11,185</u>
	0	0	41,503	
<b>2020</b>				
Additions	5,000	120,000	-	
Disposals	<u>-</u>	<u>-</u>	<u>(3,000)</u>	
	5,000	120,000	38,503	
Capital Allowance	<u>2,000</u>	<u>36,000</u>	<u>7,701</u>	<u>45,701</u>
	<u>3,000</u>	<u>84,000</u>	<u>30,802</u>	
<b>2017 (92 Days)</b>	<b>Office Building</b>	<b>Trade Mark</b>		<b>Total</b>
Cost Base	700,000	-		
Capital Allowance	<u>17,644</u>			<u>17,644</u>
	682,356	-		
<b>2018 Capital Allowance</b>	<u>70,000</u>			<u>70,000</u>
	612,356	-		
<b>2019</b>				
Additions	0	15,000		
Capital Allowance	<u>70,000</u>	<u>1,500</u>		<u>71,500</u>
	542,356	13,500		
<b>2020 Capital Allowance</b>	<u>70,000</u>	<u>1,500</u>		<u>71,500</u>
	<u>472,356</u>	<u>12,000</u>		

(16 marks evenly distributed)

b) Implication and taxation rules governing the pool system

The summary description of the Pool System is:

- In the pool system, the identity of the assets is lost.
- Capital allowance is calculated using the reducing balance method
- When an asset is sold, the consideration received by the person during the year, less the depreciation basis of the pool at the end of the year, (before considering the proceeds received), is included in calculating a person's income for a year of assessment from a business in which the depreciable assets was used.
- Written down values of GH¢500 and below are granted as a capital allowance
- Only that part of the assets which is used in the production of the income shall be placed in the pool.
- Where the assets in a pool of depreciable assets of a person are all sold or realised by the person before the end of a year of assessment, the pool is dissolved and:

An amount is included in calculating the person's income for the year calculated in accordance with the formula:  $A - B$  or

Capital allowance is granted to the person for the year calculated in accordance with the formula:  $B - A$

Where:

A is consideration received by the person during the year of assessment for the assets; and

B is the sum of:

The written down value of the pool at the end of the previous year of assessment; and

Amounts added to the depreciation basis of the pool during the year of assessment.

**(4 marks)**

**(Total: 20 marks)**

### EXAMINER'S COMMENTS

This question was answered very well. Few candidates could not answer the question. The format for answering capital allowance question was not done properly making marking very difficult. Lecturers and candidates should pay attention to the presentation of capital allowance computations.

Candidates were able to state the principles governing capital allowance pooling systems.



## QUESTION FIVE

### a) Merits of Withholding Tax

- It ensures faster mobilisation of revenue to the state. The tax due is normally paid in advance by the taxpayer before returns are made
- It is a way of expanding the tax net.
- It helps to determine the taxpayer's actual turnover, thus ascertaining the correct income.
- It involves little or almost no cost of collection to the tax authorities
- It saves time for the revenue officers to attend to other duties

(Any 2 points @ 2.5 marks each = 5 marks)

### Demerits of Withholding Taxes

- A high rate of withholding taxes is likely to affect the operating performance of most businesses.
- It may turn to discourage effort. For example, a part-time lecturer who has to pay high withholding taxes may reduce hours of teaching
- It leads to the locking up of the capital of some businesses

(Any 2 points @ 2.5 marks each = 5 marks)

### b)

Date	Details	Shares	Price	Value (GH¢)
1/1/2010	Purchases of shares	100,000	0.50	50,000
30/6/2015	Purchased shares	<u>100,000</u>	0.60	<u>60,000</u>
		200,000		110,000
31/12/19	Rights issue (1/10 x 200,000)	<u>20,000</u>	0.50	<u>10,000</u>
		220,000		120,000
31/12/20	Sale of shares	<u>50,000</u>		
	Shares remaining	<u>170,000</u>		

### Computation of cost of shares:

$\frac{\text{Market value of shares sold}}{\text{Market value of all shares before sale}} \times \text{Cost of shares before sale}$

$$\Rightarrow \frac{60,000}{60,000 + (170,000 \times 1.12)} \times 120,000$$

$$= \text{GH¢}28,754$$

### Computation of capital gains:

	GH¢
Sum Realised	60,000
Cost of shares realised 28,754	
Commission (2% x 60,000)	<u>1,200</u>
<b>Capital gain</b>	<b><u>30,046</u></b>

(5 marks)

c) Computation of gift tax for Flowqueen for 2020 year of assessment.

	<b>GH¢</b>
70 Inches SAMSUNG LED	50,000
Toyota Saloon Car	<u>80,000</u>
	<b><u>130,000</u></b>
<b>Tax payable</b> (15% x 130,000)	<b>19,500</b>
Then tax the GH¢120,000 at the graduated rate	

Alternatively:

Add the gifts to the other income and tax at the relevant rate of that income

	<b>GH¢</b>
Business Income	120,000
Gifts:	
70 Inches Samsung LED	50,000
Toyota saloon car worth	<u>80,000</u>
	<u>250,000</u>

**Note:** A candidate may assume that Flowqueen may wish to be taxed at the graduated rates.

Assume a business income tax rate of 25% x 250,000 = GH¢62,500

**(5 marks)**

**(Total: 20 marks)**

### EXAMINER'S COMMENTS

This was the best-answered question. Candidates performed excellently on question 5 a). Most candidates had a very good idea of the advantages and disadvantages of withholding taxation. Most candidates did not have any problems dealing with capital gains taxation and gift taxation.

### CONCLUSION

**The Chief Examiner would wish to reiterate the following:**

- Tuition centres and Candidates should bear in mind that the principles of taxation examinations will continue to cover the entire syllabus and, therefore, pay attention to the entire syllabus. There should not be any pick and choose attitude towards the syllabus and the examination.
- There is nothing like 'the examination trend'. Candidates are to be examined on all the topics, and therefore, the dynamics of the examination could change but still based on the syllabus.
- Candidates should pay attention to details when reading. It seems Candidates do not read carefully in between the lines when reading. This was clearly demonstrated in the examination. Answers were not provided in full.
- Candidates are strongly advised to learn the subject with the syllabus. Candidates should not learn the subject with questions. This attitude will leave out most of the topics unattended to. The past questions are only a guide as to how the questions are asked.